

SECURITIES.

IN

Washington, D.

## ANNUAL AUDITED REPORT **FORM X-17A-5** PART III

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#### FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

B. ACCOUNTANT IDENTIFICATION  DEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*  PETER D. Willner, C.P.A.  (Name - 1) and valual, state last, first, middle name;  25 Mokegan TRAIL, SADDLE River, N.T. 07458  (City) (State) Zip Code)	A. REGISTRANT IDENTIFICATION  ME OF BROKER-DEALER:  MAGNA Securities Corp.  OFFICIAL USE ONLY  FIRM ID. NO.  DRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  420 Lexington Avenue  (No. and Street)  New York, NY (0.170  (City) (State) (Zip Code)  ME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  (Area Code - Telephone No.)  B. ACCOUNTANT IDENTIFICATION  EPPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*  PETER D. Willner, C.P.A.  (Name - of individual, part use, firm, middle name)  25 Mokegan Trail, SADD Le River, N.T. 07458.  (City) (State)  CCK ONE:  CCCTTified Public Accountant  Public Accountant  Public Accountant  Accountant not resident in United States or any of its possessions.	EPORT FO	OR THE PERIO	D BEGINNING	JANUARY 1, 200	4 AND ENDING	December	3/,
AME OF BROKER-DEALER:  MAGNA Securities Corp.  OFFICIAL USE ONLY  FIRM ID. NO.  DIRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  420 Lexington Ruenue  (No. and Super)  (City)  (City)  (City)  (State)  (Area Code - Telephone Number of Person to Contact in Regard to this Report  (Area Code - Telephone No.)  B. ACCOUNTANT IDENTIFICATION  DEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*  PETER D. Willner, C.P.A.  (Name - if ordinated, seet see, first, medde name)  25 Mokegan Trail, Saddle River, N.J.  O7458  Great  CCK ONE:  CCertified Public Accountant  Public Accountant  PROCESSOR  Accountant not resident in United States or any of its possessions.	ME OF BROKER-DEALER:  MAGNA Securities Corp.  DRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  420 Lexington Avenue  (No. and Street)  New York,  (City)  (State)  (City)  (State)  (Area Code - Telephone No.)  B. ACCOUNTANT IDENTIFICATION  EPPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*  PETER D. Wilner, C.P.A.  (Name - of individual, Date are, Jorg., modele norme)  25 Mokegan Trail, Saddle River, N.J.  7458  (City)  (City)  (City)  (City)  (City)  (State)  PROCESSION  MAR 2 2 6155				MM/DD/YY		MM/DD/YY	
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(eN2).

SEC 1410 (3-91)

Moreotial persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid CMB control number.

## OATH OR AFFIRMATION

MAGNA SECURITIES CORP.	
December 3! 2004 are true and correct. I further swear (or affir any partner, proprietor, principal officer or director has any proprietary interest in any according to the control of th	m) that neither the compount classified solevas that
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Notary Public	
/ / JENNIFER ANNE FLEMING	
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Qualified In King County	
report Corrections (La Leich and Applicable Boxes):  (a) Facing page.	
(b) Statement of Financial Condition.	• .
(c) Statement of Income (Loss).	ď
(d) Statement of Changes in Financial Condition.	
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.	<u>.</u>
(g) Computation of Net Capital	
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.	•
(i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.	
(j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital	
Computation for Determination of the Reserve Requirements Under Exhibit A of Rule (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with the condition of the Reserve Requirements of Financial Condition with the Reserve Requirements and the Reserve Reserve Requirements and the Reserve	
solidation.	
(1) An Oath or Affirmation.	•
(m) A copy of the SIPC Supplemental Report.	
(n) A report describing any material inadequacits found to exist or found to have existed since th	e date of the previous audi

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## COMPARATIVE FINANCIAL STATEMENTS FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

## COMPARATIVE FINANCIAL STATEMENTS FOR THE YEARS ENDING DECEMBER 31, 2004 AND 2003

Facing page to form X-17A-5	
Affirmation of president	
Independent auditor's report	
Internal control statement	
Statements of income	1
Statement of changes in Stockholders' Equity	2
Balance sheet	3
Statement of cash flows	4
Notes to financial statements	5 - 7
Statement of changes in liabilities subordinated to claims of creditors	
Computation of net capital pursuant to rule 15c3-1	

## PETER D. WILLNER & CO. Certified Public Accountants 25 Mohegan Trail Saddle River, N. J. 07458

Tel: 201-995-9707 Fax: 201-995-9708

#### REPORT OF INDEPENDENT ACCOUNTANT

To the Shareholders of MAGNA SECURITIES CORP.

We have audited the accompanying balance sheet of MAGNA SECURITIES CORP. as of December 31, 2004 and 2003 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **MAGNA SECURITIES CORP.** as of December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming an opinion on the basic financial statements, taken as a whole. The statement of the computation of the minimum capital requirements is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peter D. Willner, C.P.A.

February 18, 2005

## PETER D. WILLNER & CO. Certified Public Accountants 25 Mohegan Trail Saddle River, N. J. 07458

Tel: 201-995-9707 Fax: 201-995-9708

#### REPORT ON INTERNAL ACCOUNTING CONTROL

## To the Shareholders of MAGNA SECURITIES CORP.

We have examined the financial statements of MAGNA SECURITIES CORP. as of December 31, 2004 and have issued our report thereon dated February 18, 2005. As part of our examination, we made a study and evaluation of the Company's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and required by rule 17a-5(g)(1). This study and evaluation included a review of the accounting system, the internal accounting controls, and the procedures for safeguarding firm assets. In addition, we reviewed the practices and procedures followed by the Company in making periodic computations of the minimum financial requirements pursuant to rule 17a-3(a)(11).

Under generally accepted auditing standards, the purpose of such study and evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to provide a basis for reporting weaknesses in internal accounting control.

The objectives of internal accounting controls are to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management. However, for the purposes of this report, the determination of weaknesses to be reported was made without considering the practicability of corrective action by management within the framework of a cost/benefit relationship.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends on segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting controls to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting controls for the year ending December 31, 2004, which was made for the purpose set forth in the first paragraph above and which would not necessarily disclose all weaknesses in the system that may have existed during the period under review, disclosed no weaknesses that we believe to be material.

February 18, 2005

Peter D. Willner, C.P.A.

## COMPARATIVE STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	<u>2003</u>
INCOME		
Commissions	\$ 8,512,888	\$ 7,466,939
Trading income/(loss)	(923,093)	117,466
Interest income	170,565	62,633
Dividend income	<u> </u>	134
Total Income	\$ 7,760,360	\$ 7,647,172
EXPENSES		
Subordinated loan interest (Note 6)	\$ 120,000	\$ 60,000
Interest expense	144,641	-
Marketing services	2,591,207	2,296,994
Employee compensation	1,846,264	1,539,154
Office expenses	114,786	210,192
Clearing commissions, floor brokerage	1,755,422	1,868,608
Regulatory fees	30,838	56,038
Insurance expense	33,163	6,737
Entertainment	70,434	75,016
Professional fees	69,117	63,467
Travel	96,999	69,567
Quotation service	660,432	562,805
Dues and subscriptions	59,199	42,070
Telephone & communications expense	115,562	138,968
Depreciation & amortization expense	151,874	83,443
Rent expense (Note 3)	441,856	379,116
Consulting fees	47,287	94,749
Equipment leasing	142,555	52,662
Other administrative expenses	87,775	9,112
Total Expenses	\$ 8,579,411	\$ 7,608,698
Net Income/(Loss) before Federal Income Tax	\$ (819,051)	\$ 38,474
Federal Income Tax Provision (Note 2)	<del>-</del>	-
NET INCOME/(LOSS)	\$ (819,051)	\$ 38,474
Earnings/(Loss) per share (Note 5)	\$ (8,190.51)	\$ 384.74

# COMPARATIVE STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	 ontributed <u>Capital</u>	Un	distributed <u>Profit</u>	2004		2003
Stockholders' Equity, Beginning	\$ 100	\$	727,360	\$ 727,460	\$	1,052,111
Add: Paid in Capital Net Income/(Loss) (Less): Distributions	557,000		(819,051)	 557,000 (819,051)		36,000 38,474 (399,125)
Stockholders' Equity, Ending	\$ 557,100	\$	(91,691)	\$ 465,409	_\$_	727,460

# COMPARATIVE BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

Current Assets:			2004		<u>2003</u>
Cash         \$ 469,247         \$ 738,815           Cash deposit at brokers and dealers         110,050         210,997           Due from brokers and dealers         163,199         236,093           Commissions receivable         183,790         7,7929           Inventory         -         5,895,398           Total Current Assets         \$ 926,286         \$ 7,159,232           Fixed Assets:           Furniture and fixtures         \$ 229,316         \$ 200,261           Computer equipment         368,799         282,563           Leaschold improvements         261,143         245,733           Subtotal         \$ 859,258         728,557           (Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities         \$ 561,267         \$ 7,909,684           Current Liabilities           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 7,182,224           STOCKHOLDERS' EQUITY	ASSETS				
Cash deposit at brokers and dealers         110,050         210,997           Due from brokers and dealers         163,199         236,093           Commissions receivable         183,790         77,929           Inventory         -         5,895,398           Total Current Assets         \$ 926,286         \$ 7,159,232           Fixed Assets:           Furniture and fixtures         \$ 229,316         \$ 200,261           Computer equipment         368,799         282,563           Leasehold improvements         261,143         245,733           Subtotal         \$ 859,258         \$ 7245,735           (Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities         \$ 561,267         1,074,412           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         5,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000 <td>Current Assets:</td> <td></td> <td></td> <td></td> <td></td>	Current Assets:				
Due from brokers and dealers         163,199         236,093           Commissions receivable         183,790         77,929           Inventory         — 5,895,398           Total Current Assets         \$ 926,286         \$ 7,159,232           Fixed Assets:           Furniture and fixtures         \$ 229,316         \$ 200,261           Computer equipment         368,799         282,563           Leasehold improvements         261,143         245,733           Subtotal         \$ 859,258         \$ 728,557           (Less) Accum. Deprec. & amort.         \$ 343,868         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities:         \$ 2,026,676         \$ 7,909,684           Due to clearing firm         \$ -         \$ 5,107,812           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         5,107,812           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Tota	Cash		\$ 469,247		\$ 738,815
Commissions receivable         183,790         77,929           Inventory         5,895,398           Total Current Assets         \$ 926,286         \$ 7,159,232           Fixed Assets:           Furniture and fixtures         \$ 229,316         \$ 200,261           Computer equipment         368,799         282,563           Leasehold improvements         261,143         245,733           Subtotal         \$ 859,258         \$ 728,557           (Less) Accum. Deprec. & amert.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 2,026,676         \$ 7,909,684           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities:           Due to clearing firm         \$ 5         5         7,909,684           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         5,107,812           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and outstanding         \$ 100	Cash deposit at brokers and dealers		110,050		210,997
Inventory	Due from brokers and dealers		163,199		236,093
Fixed Assets:         \$ 229,316         \$ 7,159,232           Furniture and fixtures         \$ 229,316         \$ 200,261           Computer equipment         368,799         282,563           Leasehold improvements         261,143         245,733           Subtotal         \$ 859,258         \$ 728,557           (Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES         S Current Liabilities         \$ 5,107,812           Current Liabilities         \$ 5,107,812         \$ 5,107,812           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         1,074,412           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended (Less): Shareholder distributions         \$ 1,000,0	Commissions receivable		183,790		77,929
Fixed Assets:           Furniture and fixtures         \$ 229,316         \$ 200,261           Computer equipment         368,799         282,563           Leasehold improvements         261,143         245,733           Subtotal         \$ 859,258         \$ 728,557           (Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 7,909,684           LIABILITIES           Current Liabilitities:           Due to clearing firm         \$ -         \$ 5,107,812           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         1,074,412           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$ 859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareh	Inventory		 		 5,895,398
Furniture and fixtures         \$ 229,316         \$ 200,261           Computer equipment         368,799         282,563           Leasehold improvements         261,143         245,733           Subtotal         \$ 859,258         728,557           (Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities:         \$ 5         \$ 7,909,684           Due to clearing firm         \$ 5         \$ 5,107,812           Accounts payable & accrued expenses         \$ 561,267         \$ 1,074,412           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,000,000         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$ 100         \$ 70,000,000           Paid in Capital         \$ 859,341         302,341           Retained Earnings - Beginning         \$ 425,019         38,474 </td <td>Total Current Assets</td> <td></td> <td>\$ 926,286</td> <td></td> <td>\$ 7,159,232</td>	Total Current Assets		\$ 926,286		\$ 7,159,232
Computer equipment         368,799         282,563           Leasehold improvements         261,143         245,733           Subtotal         \$859,258         \$728,557           (Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$515,390         \$533,067           Security deposit and other assets         \$585,000         \$217,385           Total Assets         \$585,000         \$7,909,684           LIABILITIES           Current Liabilitites:         \$512,267         \$5,107,812           Accounts payable & accrued expenses         \$561,267         \$6,182,224           Total current liabilities         \$561,267         \$6,182,224           Subordinated loan payable (Note 6)         \$1,000,000         \$1,000,000           Total Liabilities         \$1,561,267         \$7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$100         \$100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$425,019         \$785,670           Net income/(loss) for the year ended (819,051)         (399,125)         38,474           (Less): Shareholder distributions         (399,125)	Fixed Assets:				
Leasehold improvements         261,143         245,733           Subtotal         \$ 859,258         \$ 728,557           (Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities:         \$ 5         \$ 5,107,812           Due to clearing firm         \$ -         \$ 5,107,812           Accounts payable & accrued expenses         561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$ 100         \$ 100           Paid in Capital         \$ 859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity </td <td>Furniture and fixtures</td> <td></td> <td>\$ 229,316</td> <td></td> <td>\$ 200,261</td>	Furniture and fixtures		\$ 229,316		\$ 200,261
Subtotal         \$ 859,258         \$ 728,557           (Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES         S Current Liabilities:         S S 1,207         \$ 5,107,812           Due to clearing firm         \$ 561,267         \$ 1,074,412         \$ 6,182,224           Accounts payable & accrued expenses         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY         \$ 1,000,000         \$ 1,000,000           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         \$ 727,4660 </td <td>Computer equipment</td> <td></td> <td>368,799</td> <td></td> <td>282,563</td>	Computer equipment		368,799		282,563
(Less) Accum. Deprec. & amort.         (343,868)         (195,490)           Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities:         \$ 5         \$ 5,107,812           Due to clearing firm         \$ 561,267         \$ 1,074,412           Accounts payable & accrued expenses         \$ 561,267         \$ 6,182,224           Total current liabilities         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         727,460	Leasehold improvements		 261,143		 245,733
Net book value         \$ 515,390         \$ 533,067           Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities:           Due to clearing firm         \$ 5 - \$ 51,07,812           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and outstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         727,460	Subtotal	•	\$ 859,258		\$ 728,557
Security deposit and other assets         \$ 585,000         \$ 217,385           Total Assets         \$ 2,026,676         \$ 7,909,684           LIABILITIES           Current Liabilities:           Due to clearing firm         \$ 5,107,812           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and outstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         727,460	(Less) Accum. Deprec. & amort.		 (343,868)		(195,490)
LIABILITIES         \$ 2,026,676         \$ 7,909,684           Current Liabilities:         \$ 5,107,812           Due to clearing firm         \$ 5,107,812           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and outstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended (Less): Shareholder distributions         (399,032)         \$ 425,019           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         \$ 727,460	Net book value		\$ 515,390		\$ 533,067
LIABILITIES         Current Liabililities:       \$ 5,107,812         Due to clearing firm       \$ 5,107,812         Accounts payable & accrued expenses       561,267       1,074,412         Total current liabilities       \$ 561,267       \$ 6,182,224         Subordinated loan payable (Note 6)       \$ 1,000,000       \$ 1,000,000         Total Liabilities       \$ 1,561,267       \$ 7,182,224         STOCKHOLDERS' EQUITY         Common Stock, issued and ourstanding       \$ 100       \$ 100         Paid in Capital       859,341       302,341         Retained Earnings - Beginning       \$ 425,019       \$ 785,670         Net income/(loss) for the year ended (819,051)       38,474       (Less): Shareholder distributions         -       (399,125)       425,019         Retained Earnings/(Deficit), Ending       (394,032)       425,019         Total Stockholders' Equity       \$ 465,409       \$ 727,460	Security deposit and other assets		\$ 585,000		\$ 217,385
Current Liabililities:         S         5,107,812           Due to clearing firm         \$ 5,107,812           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and outstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended (Less): Shareholder distributions         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         727,460	Total Assets		\$ 2,026,676		\$ 7,909,684
Due to clearing firm         \$ 5,107,812           Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         727,460	LIABILITIES				
Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         \$ 727,460	Current Liabililties:				
Accounts payable & accrued expenses         561,267         1,074,412           Total current liabilities         \$ 561,267         \$ 6,182,224           Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         \$ 727,460	Due to clearing firm		\$ _		\$ 5,107,812
Subordinated loan payable (Note 6)         \$ 1,000,000         \$ 1,000,000           Total Liabilities         \$ 1,561,267         \$ 7,182,224           STOCKHOLDERS' EQUITY           Common Stock, issued and ourstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (394,032)         425,019           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         \$ 727,460	_		561,267		1,074,412
STOCKHOLDERS' EQUITY         \$ 1,561,267         \$ 7,182,224           Common Stock, issued and outstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$ 425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         \$ 727,460	Total current liabilities		\$ 561,267		\$ 6,182,224
STOCKHOLDERS' EQUITY         \$ 1,561,267         \$ 7,182,224           Common Stock, issued and outstanding         \$ 100         \$ 100           Paid in Capital         859,341         302,341           Retained Earnings - Beginning         \$425,019         \$ 785,670           Net income/(loss) for the year ended         (819,051)         38,474           (Less): Shareholder distributions         -         (399,125)           Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         \$ 727,460	Subordinated loan payable (Note 6)		\$ 1,000,000		\$ 1,000,000
Common Stock, issued and outstanding       \$ 100       \$ 100         Paid in Capital       859,341       302,341         Retained Earnings - Beginning       \$425,019       \$785,670         Net income/(loss) for the year ended       (819,051)       38,474         (Less): Shareholder distributions       -       (399,125)         Retained Earnings/(Deficit), Ending       (394,032)       425,019         Total Stockholders' Equity       \$ 465,409       \$ 727,460	Total Liabilities	•	\$ 1,561,267		\$
Common Stock, issued and outstanding       \$ 100       \$ 100         Paid in Capital       859,341       302,341         Retained Earnings - Beginning       \$425,019       \$785,670         Net income/(loss) for the year ended       (819,051)       38,474         (Less): Shareholder distributions       -       (399,125)         Retained Earnings/(Deficit), Ending       (394,032)       425,019         Total Stockholders' Equity       \$ 465,409       \$ 727,460	STOCKHOLDERS' EQUITY				
Paid in Capital       859,341       302,341         Retained Earnings - Beginning       \$425,019       \$785,670         Net income/(loss) for the year ended (Less): Shareholder distributions       (819,051)       38,474         (Less): Shareholder distributions       -       (399,125)         Retained Earnings/(Deficit), Ending       (394,032)       425,019         Total Stockholders' Equity       \$465,409       \$727,460	<del>-</del>		\$ 100		\$ 100
Retained Earnings - Beginning       \$ 425,019       \$ 785,670         Net income/(loss) for the year ended (Less): Shareholder distributions       (819,051)       38,474         (Less): Shareholder distributions       -       (399,125)         Retained Earnings/(Deficit), Ending       (394,032)       425,019         Total Stockholders' Equity       \$ 465,409       \$ 727,460	,		859,341	•	302,341
Net income/(loss) for the year ended (Less): Shareholder distributions       (819,051)       38,474         (Less): Shareholder distributions       -       (399,125)         Retained Earnings/(Deficit), Ending       (394,032)       425,019         Total Stockholders' Equity       \$ 465,409       \$ 727,460	•	\$425,019	,	\$ 785,670	,
(Less): Shareholder distributions       -       (399,125)         Retained Earnings/(Deficit), Ending       (394,032)       425,019         Total Stockholders' Equity       \$ 465,409       \$ 727,460	-	•		*	
Retained Earnings/(Deficit), Ending         (394,032)         425,019           Total Stockholders' Equity         \$ 465,409         \$ 727,460	• • •	-		*	
Total Stockholders' Equity \$ 465,409 \$ 727,460			(394,032)	. , , ,	425,019
			\$ 	•	\$ 
			\$ 	•	\$ 

## COMPARATIVE STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

CASH FLOWS FROM OPERATING ACTIVITIES           Net income/(Loss)         \$ (819,051)         \$ 38,474           Adjustments to reconcile net income to net cash provided from operating activities:         148,378         83,443           Depreciation & amortization expense         148,378         83,443           Changes in assets and liabilities:         (Increase) decrease in cash deposit at brokers and dealers         100,947         (110,292)           (Increase) decrease in due from brokers and dealers         72,894         (94,416)           (Increase) decrease in commissions receivable         (105,861)         49,118           (Increase) decrease in inventory         5,895,398         (5,895,398)           (Increase) in security deposits and other assets         (367,615)         (80,573)           Increase (decrease) in accounts payable and accrued expenses         (513,145)         92,491           Increase (decrease) in due to clearing firm         (5,107,812)         5,018,866           Net cash provided by operating activities         \$ (695,867)         \$ (898,287)           CASH FLOWS FROM INVESTING ACTIVITIES         Increase in paid in capital         557,000         36,000           (Distributions) to shareholder         -         (399,125)           Net cash provided by investing activities         \$ 426,299         \$ 121,250     <		2004		<u>2003</u>
Adjustments to reconcile net income to net cash provided from operating activities:  Depreciation & amortization expense 148,378 83,443  Changes in assets and liabilities: (Increase) decrease in cash deposit at brokers and dealers 72,894 (94,416) (Increase) decrease in due from brokers and dealers 72,894 (94,416) (Increase) decrease in commissions receivable (105,861) 49,118 (Increase) decrease in inventory 5,895,398 (5,895,398) (Increase) decrease in inventory 5,895,398 (5,895,398) (Increase) in security deposits and other assets (367,615) (80,573) Increase (decrease) in accounts payable and accrued expenses (513,145) 92,491 Increase (decrease) in due to clearing firm (5,107,812) 5,018,866  Net cash provided by operating activities (5,107,812) 5,018,866  Net cash provided by operating activities  CASH FLOWS FROM INVESTING ACTIVITIES  Increase in Subordinated Loan \$ - \$ 1,000,000 (Acquisition) of fixed assets and leasehold improvments (130,701) (515,625) Increase in paid in capital 557,000 36,000 (Distributions) to shareholder - (399,125)  Net cash provided by investing activities \$ 426,299 \$ 121,250  NET (DECREASE) IN CASH AND  CASH EQUIVALENTS \$ (269,568) \$ (777,037) CASH AND CASH EQUIVALENTS, beginning of year 738,815 1,515,852	CASH FLOWS FROM OPERATING ACTIVITIES			
net cash provided from operating activities:         Depreciation & amortization expense         148,378         83,443           Changes in assets and liabilities:         (Increase) decrease in cash deposit at brokers and dealers         100,947         (110,292)           (Increase) decrease in due from brokers and dealers         72,894         (94,416)           (Increase) decrease in due from brokers and dealers         72,894         (94,416)           (Increase) decrease in inventory         5,895,398         (5,895,398)           (Increase) decrease in inventory         5,895,398         (5,895,398)           (Increase) decrease in inventory         5,895,398         (5,895,398)           (Increase) decrease in accounts payable and accrued expenses         (513,145)         92,491           Increase (decrease) in due to clearing firm         (5,107,812)         5,018,866           Net cash provided by operating activities         \$ (695,867)         \$ 1,000,000           Acquisition) of fixed assets and leasehold improvments         (130,701)         (515,625)           Increase in paid in capital         557,000         36,000	Net income/(Loss)	\$ (819,051)	\$	38,474
Depreciation & amortization expense         148,378         83,443           Changes in assets and liabilities:         (Increase) decrease in cash deposit at brokers and dealers         100,947         (110,292)           (Increase) decrease in due from brokers and dealers         72,894         (94,416)           (Increase) decrease in due from brokers and dealers         72,894         (94,416)           (Increase) decrease in commissions receivable         (105,861)         49,118           (Increase) decrease in inventory         5,895,398         (5,895,398)           (Increase) decrease in security deposits and other assets         (367,615)         (80,573)           Increase (decrease) in accounts payable and accrued expenses         (513,145)         92,491           Increase (decrease) in due to clearing firm         (5,107,812)         5,018,866           Net cash provided by operating activities         \$ (695,867)         \$ (898,287)           CASH FLOWS FROM INVESTING ACTIVITIES         Increase in Subordinated Loan         \$ -         \$ 1,000,000           (Acquisition) of fixed assets and leasehold improvments         (130,701)         (515,625)           Increase in paid in capital         557,000         36,000           (Distributions) to shareholder         -         (399,125)           Net cash provided by investing activities         \$	Adjustments to reconcile net income to	, ,		•
Changes in assets and liabilities:         (Increase) decrease in cash deposit at       100,947       (110,292)         brokers and dealers       100,947       (110,292)         (Increase) decrease in due from brokers and dealers       72,894       (94,416)         (Increase) decrease in commissions receivable       (105,861)       49,118         (Increase) decrease in inventory       5,895,398       (5,895,398)         (Increase) decrease in security deposits and other assets       (367,615)       (80,573)         Increase (decrease) in accounts payable and accrued expenses       (513,145)       92,491         Increase (decrease) in due to clearing firm       (5,107,812)       5,018,866         Net cash provided by operating activities       \$ (695,867)       \$ (898,287)         CASH FLOWS FROM INVESTING ACTIVITIES         Increase in Subordinated Loan       \$ -       \$ 1,000,000         (Acquisition) of fixed assets and leasehold improvments       (130,701)       (515,625)         Increase in paid in capital       557,000       36,000         (Distributions) to shareholder       (399,125)         Net cash provided by investing activities       \$ 426,299       \$ 121,250         NET (DECREASE) IN CASH AND       (269,568)       (777,037)         CASH EQUIVALENTS       \$ (	net cash provided from operating activities:			
Cincrease   decrease in cash deposit at brokers and dealers   100,947   (110,292)	Depreciation & amortization expense	148,378		83,443
Drokers and dealers	Changes in assets and liabilities:			
(Increase) decrease in due from brokers and dealers       72,894       (94,416)         (Increase) decrease in commissions receivable       (105,861)       49,118         (Increase) decrease in inventory       5,895,398       (5,895,398)         (Increase) in security deposits and other assets       (367,615)       (80,573)         Increase (decrease) in accounts payable and accrued expenses       (513,145)       92,491         Increase (decrease) in due to clearing firm       (5,107,812)       5,018,866         Net cash provided by operating activities       \$ (695,867)       \$ (898,287)         CASH FLOWS FROM INVESTING ACTIVITIES       Increase in Subordinated Loan       \$ -       \$ 1,000,000         (Acquisition) of fixed assets and leasehold improvments       (130,701)       (515,625)         Increase in paid in capital       557,000       36,000         (Distributions) to shareholder       -       (399,125)         Net cash provided by investing activities       \$ 426,299       \$ 121,250         NET (DECREASE) IN CASH AND         CASH EQUIVALENTS       \$ (269,568)       \$ (777,037)         CASH AND CASH EQUIVALENTS, beginning of year       738,815       1,515,852	(Increase) decrease in cash deposit at			
(Increase) decrease in commissions receivable         (105,861)         49,118           (Increase) decrease in inventory         5,895,398         (5,895,398)           (Increase) in security deposits and other assets         (367,615)         (80,573)           Increase (decrease) in accounts payable and accrued expenses         (513,145)         92,491           Increase (decrease) in due to clearing firm         (5,107,812)         5,018,866           Net cash provided by operating activities         \$ (695,867)         \$ (898,287)           CASH FLOWS FROM INVESTING ACTIVITIES         Increase in Subordinated Loan         \$ -         \$ 1,000,000           (Acquisition) of fixed assets and leasehold improvments         (130,701)         (515,625)           Increase in paid in capital         557,000         36,000           (Distributions) to shareholder         -         (399,125)           Net cash provided by investing activities         \$ 426,299         \$ 121,250           NET (DECREASE) IN CASH AND         \$ (269,568)         \$ (777,037)           CASH EQUIVALENTS         \$ (269,568)         \$ (777,037)           CASH AND CASH EQUIVALENTS, beginning of year         738,815         1,515,852	brokers and dealers	100,947		(110,292)
(Increase) decrease in inventory       5,895,398       (5,895,398)         (Increase) in security deposits and other assets       (367,615)       (80,573)         Increase (decrease) in accounts payable and accrued expenses       (513,145)       92,491         Increase (decrease) in due to clearing firm       (5,107,812)       5,018,866         Net cash provided by operating activities       \$ (695,867)       \$ (898,287)         CASH FLOWS FROM INVESTING ACTIVITIES       Increase in Subordinated Loan       \$ -       \$ 1,000,000         (Acquisition) of fixed assets and leasehold improvments       (130,701)       (515,625)         Increase in paid in capital       557,000       36,000         (Distributions) to shareholder       -       (399,125)         Net cash provided by investing activities       \$ 426,299       \$ 121,250         NET (DECREASE) IN CASH AND       \$ (269,568)       \$ (777,037)         CASH AND CASH EQUIVALENTS, beginning of year       738,815       1,515,852	(Increase) decrease in due from brokers and dealers	72,894		(94,416)
(Increase) in security deposits and other assets       (367,615)       (80,573)         Increase (decrease) in accounts payable and accrued expenses       (513,145)       92,491         Increase (decrease) in due to clearing firm       (5,107,812)       5,018,866         Net cash provided by operating activities       \$ (695,867)       \$ (898,287)         CASH FLOWS FROM INVESTING ACTIVITIES       Increase in Subordinated Loan       \$ -       \$ 1,000,000         (Acquisition) of fixed assets and leasehold improvments       (130,701)       (515,625)         Increase in paid in capital       557,000       36,000         (Distributions) to shareholder       -       (399,125)         Net cash provided by investing activities       \$ 426,299       \$ 121,250         NET (DECREASE) IN CASH AND       \$ (269,568)       \$ (777,037)         CASH EQUIVALENTS       \$ (269,568)       \$ (777,037)         CASH AND CASH EQUIVALENTS, beginning of year       738,815       1,515,852	(Increase) decrease in commissions receivable	(105,861)		49,118
Increase (decrease) in accounts payable and accrued expenses         (513,145)         92,491           Increase (decrease) in due to clearing firm         (5,107,812)         5,018,866           Net cash provided by operating activities         \$ (695,867)         \$ (898,287)           CASH FLOWS FROM INVESTING ACTIVITIES         Increase in Subordinated Loan         \$ -         \$ 1,000,000           (Acquisition) of fixed assets and leasehold improvments         (130,701)         (515,625)           Increase in paid in capital         557,000         36,000           (Distributions) to shareholder         -         (399,125)           Net cash provided by investing activities         \$ 426,299         \$ 121,250           NET (DECREASE) IN CASH AND         \$ (269,568)         \$ (777,037)           CASH EQUIVALENTS         \$ (269,568)         \$ (777,037)           CASH AND CASH EQUIVALENTS, beginning of year         738,815         1,515,852	(Increase) decrease in inventory	5,895,398		(5,895,398)
Increase (decrease) in due to clearing firm	(Increase) in security deposits and other assets	(367,615)		(80,573)
Net cash provided by operating activities         \$ (695,867)         \$ (898,287)           CASH FLOWS FROM INVESTING ACTIVITIES         Increase in Subordinated Loan         \$ - \$ 1,000,000           (Acquisition) of fixed assets and leasehold improvments         (130,701)         (515,625)           Increase in paid in capital         557,000         36,000           (Distributions) to shareholder         - (399,125)           Net cash provided by investing activities         \$ 426,299         \$ 121,250           NET (DECREASE) IN CASH AND         \$ (269,568)         \$ (777,037)           CASH EQUIVALENTS         \$ (269,568)         \$ (777,037)           CASH AND CASH EQUIVALENTS, beginning of year         738,815         1,515,852	Increase (decrease) in accounts payable and accrued expenses	(513,145)		92,491
CASH FLOWS FROM INVESTING ACTIVITIES         Increase in Subordinated Loan       \$ - \$ 1,000,000         (Acquisition) of fixed assets and leasehold improvments       (130,701)       (515,625)         Increase in paid in capital       557,000       36,000         (Distributions) to shareholder       - (399,125)         Net cash provided by investing activities       \$ 426,299       \$ 121,250         NET (DECREASE) IN CASH AND         CASH EQUIVALENTS       \$ (269,568)       \$ (777,037)         CASH AND CASH EQUIVALENTS, beginning of year       738,815       1,515,852	Increase (decrease) in due to clearing firm	 (5,107,812)		5,018,866
Increase in Subordinated Loan \$ - \$ 1,000,000 (Acquisition) of fixed assets and leasehold improvments (130,701) (515,625) Increase in paid in capital 557,000 36,000 (Distributions) to shareholder - (399,125) Net cash provided by investing activities \$ 426,299 \$ 121,250  NET (DECREASE) IN CASH AND CASH EQUIVALENTS \$ (269,568) \$ (777,037) CASH AND CASH EQUIVALENTS, beginning of year 738,815 1,515,852	Net cash provided by operating activities	\$ (695,867)	\$	(898,287)
(Acquisition) of fixed assets and leasehold improvments (130,701) (515,625) Increase in paid in capital (Distributions) to shareholder (399,125) Net cash provided by investing activities  NET (DECREASE) IN CASH AND CASH EQUIVALENTS (269,568) (777,037) CASH AND CASH EQUIVALENTS, beginning of year (30,701) (515,625) (399,125)	CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in paid in capital       557,000       36,000         (Distributions) to shareholder       -       (399,125)         Net cash provided by investing activities       \$ 426,299       \$ 121,250         NET (DECREASE) IN CASH AND         CASH EQUIVALENTS       \$ (269,568)       \$ (777,037)         CASH AND CASH EQUIVALENTS, beginning of year       738,815       1,515,852	Increase in Subordinated Loan	\$ -	\$	1,000,000
(Distributions) to shareholder  Net cash provided by investing activities  Substitute    NET (DECREASE) IN CASH AND  CASH EQUIVALENTS  CASH EQUIVALENTS, beginning of year  CASH AND CASH EQUIVALENTS, beginning of year  (399,125)  \$ 121,250  \$ (269,568)  \$ (777,037)  1,515,852	(Acquisition) of fixed assets and leasehold improvments	(130,701)		(515,625)
Net cash provided by investing activities  \$\frac{\$426,299}{\$121,250}\$   NET (DECREASE) IN CASH AND  CASH EQUIVALENTS  \$\frac{(269,568)}{\$1,777,037}\$  CASH AND CASH EQUIVALENTS, beginning of year  \$\frac{738,815}{\$1,515,852}\$	Increase in paid in capital	557,000		36,000
NET (DECREASE) IN CASH AND  CASH EQUIVALENTS \$ (269,568) \$ (777,037)  CASH AND CASH EQUIVALENTS, beginning of year 738,815 1,515,852	(Distributions) to shareholder	 		(399,125)
CASH EQUIVALENTS       \$ (269,568)       \$ (777,037)         CASH AND CASH EQUIVALENTS, beginning of year       738,815       1,515,852	Net cash provided by investing activities	\$ 426,299	\$	121,250
CASH EQUIVALENTS       \$ (269,568)       \$ (777,037)         CASH AND CASH EQUIVALENTS, beginning of year       738,815       1,515,852	NET (DECREASE) IN CASH AND			
CASH AND CASH EQUIVALENTS, beginning of year 738,815 1,515,852	·	\$ (269,568)	\$	(777.037)
	•	, ,	•	, ,
		\$ <del></del>	\$	

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

#### 1. ORGANIZATION AND NATURE OF BUSINESS

MAGNA SECURITIES CORP. was formed in September 1992 to engage primarily in securities brokerage activities. The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (N.A.S.D.).

#### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The Company is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services, including agency transactions.

#### Securities Transactions

Customer's securities transactions are recorded on a settlement date basis with related commission income and expenses reported on a settlement date basis.

#### Commissions

Commissions and related clearing expenses are recorded on a settlement-date basis as securities transactions occur.

#### Income Taxes

The Company has elected to be treated as an "S" corporation for Federal income tax purposes. As a result of this election, no provision was made for Federal income taxes for years 2004 and 2003.

#### Statement of Cash Flows

For purposes of the Statements of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

### **Depreciation**

Depreciation is provided on a straight line basis using estimated useful lives of five to seven years. Leasehold Improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

#### Distributions to Shareholder

Distributions to shareholder in 2003 were made from retained earnings. They represent previously taxed "S" corporation income. No such distributions were made in 2004.

#### Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company's customer activities involve the execution and settlement of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract as a loss. All transactions involving the execution and settlement of customer securities with a trade date of December 29, 30, and 31, 2004 were settled in January 2005 in fulfillment of contractual obligations without incident or exception.

#### 3. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is obligated under an operating lease with a remaining term of nine years and three months. Rent expense for 2004 was \$441,856. Aggregate annual rental for office space at December 31, 2004 are approximately as listed below:

2005	\$432,252
2006	\$442,287
2007	\$468,273
2008	\$468,273
2009	\$471,017
Thereafter	\$1,793,216

#### Equipment Lease Obligations:

The Company is obligated under various equipment lease agreements. Leases expire at various dates through September 2009. The cost for 2004 was \$142,555. The annual costs thereafter are:

2005	\$161,789
2006	108,310
2007	18,914
2008	1,981
2009	<u>937</u>
Total	<u>\$291,931</u>

#### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

#### 4. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission's Uniform net capital rule (rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined shall not exceed 15 to 1 (and the rule of the "applicable" examining authority also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2004, the Company had net capital of \$366,338 which was \$116,338 in excess of its required net capital of \$250,000. The Company's aggregate indebtedness to net capital was 153%. The percent of debt to debt-equity total computed in accordance with rule 15c3-1(d) was 68%.

#### 5. EARNINGS PER SHARE

Earnings per share of common stock were computed by dividing net income by the weighted average number of common shares outstanding for the year (100 shares).

#### 6. SUBORDINATED LOAN PAYABLE

The Company entered into a \$1,000,000.00 subordinated loan agreement with an unrelated party on June 12, 2003 with the approval of the N.A.S.D. The loan carries an interest rate of 12 percent per annum and is due to mature on May 31, 2006. In compliance with Appendix D of S.E.C. Rule 15c3-1, prepayments, if any, of this subordinated loan requires the prior written approval of the N.A.S.D.

## COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1 DECEMBER 31, 2004

## Computation of Net Capital

Total capital from statement of financial condition	\$	465,409
Subordinated Loan	_1	000,000
	\$1	,465,409
Total non-allowable assets	$\Omega$	1 <u>,094,794</u> )
New capital before haircuts	\$	370,615
Haircuts on cash & securities on deposit at brokers and dealers	<u>(</u>	4,277)
Net Capital	<u>\$</u>	366,338

## Computation of Basic Net Capital Requirement

Minimum net capital required by 6.667% of \$561,267 Minimum net capital requirements of reporting broker-dealer Net capital requirement	37,417 250,000 250,000
Excess net capital	\$ 116,338
Excess net capital at 1000%	\$ 310,211

## **Computation of Aggregate Indebtedness**

Total A.I. Liabilities	\$ 561,267
Percentage of aggregate indebtedness to net capital	153%
Percentage of debt to debt-equity total (Rule 15c3(d))	68%

A reconciliation with the corporation's computation of net capital as reported in the unaudited Part IIA of Form X-17A5 was not prepared as there are no material differences between the corporation's computation of net capital and the computation contained herein.

Peter D. Willner, C.P.A.

## STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF CREDITORS DECEMBER 31, 2004

	<u>2004</u>	<u>2003</u>
Subordinated Loan Payable	\$1,000,000	\$1,000,000
Total Subordinated Loan Payable	<u>\$1,000,000</u>	<u>\$1,000,000</u>
Increase in Subordinated Loan Payable	0	0

As per an agreement entered into on June 12, 2003 approved by the N.A.S.D., the Company entered into a subordinated loan in the amount of \$1,000,000. This loan is considered to be "good capital" in the computation of net capital pursuant to S.E.C. rule 15c3-1.

The loan, which bears an interest rate of 12 percent per annum, is due to mature on May 31, 2006. The Company may prepay this subordinated loan in whole or in part only with the written approval of the N.A.S.D. in compliance with Appendix D of S.E.C. rule 15c3-1.